

83438



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Served: June 13, 2000

Issued by the Department of Transportation
on the 9th day of June, 2000.

Essential Air Service at

GALLUP, NEW MEXICO

under 49 U.S.C. 41731 *et seq.*

Docket OST-1998-4706-19

FINAL ORDER

Summary

By this Order the Department is selecting Mesa Airlines, Inc., to provide essential air service at Gallup, New Mexico, for the period of February 3, 1999, through October 31, 2001, for an annual subsidy rate of \$691,080.

Background

On November 4, 1998, Mesa Airlines, Inc., d/b/a America West Express, filed a 90-day notice of intent to suspend its unsubsidized service at Gallup, New Mexico, as of February 3, 1999. (See Appendix A to this order for a map of the service area.) Mesa had been able to provide unsubsidized service at Gallup as an America West Express carrier by serving the community on a Farmington-Gallup-Phoenix routing. However, the carrier then began to serve Farmington on a nonstop routing in order to offer improved service to Farmington. Gallup did not generate sufficient revenue to support nonstop service by itself. By Order 99-2-1, February 5, 1999, the Department prohibited Mesa from suspending service at Gallup for 30 days beyond the end of the 90-day notice period, through March 5, 1999, and requested proposals from air carriers interested in providing replacement service at Gallup. (The Department has extended Mesa's service obligation at Gallup by a series of additional 30-day hold-in orders.)

Summary of Air Carrier Proposal

Only Mesa submitted a proposal in response to the Department's solicitation. Under the terms of this proposal, Mesa would provide at least three nonstop round trips each weekday and each weekend to either Phoenix or Albuquerque using 19-passenger-seat Beech 1900 aircraft for an annual subsidy rate of \$691,080. (See Appendix C for a summary calculation of this rate.) (Mesa had been providing service in the Gallup-Phoenix market as an America West Express carrier until recently when it switched Gallup's service to Albuquerque. Its proposal does not contemplate continued code-sharing with America West for Gallup's service, particularly to Albuquerque.)

Community Comments

By letters dated October 21, 1999, we advised the Mayor and Airport Manager of Gallup and the Director of the New Mexico State Highway & Transportation Department, Transportation Division, of the results of our negotiations with Mesa, and sought comments on carrier selection from these officials. We received comments from the Airport Manager of Gallup Municipal Airport. The Airport Manager, writing for the City of Gallup, generally expressed support for Mesa's proposal, with the reservation that if future opportunity permits, the City would like to switch its hub back from Albuquerque to Phoenix. (The comments indicated, though, that the City would do its best to support the Albuquerque service.) Of some concern was the fact that the schedule that Mesa has actually implemented for service to Albuquerque differs materially from the schedule in the carrier's proposal. In particular, the first weekday flight in the carrier's proposal would depart Gallup at 8:00 a.m., whereas the first flight actually departs at 11:05 a.m. We have been in close contact with the carrier for the past several months in an effort to improve this situation. We are persuaded that Mesa has made good-faith efforts to offer an early-morning departure, but has been stymied in its efforts by limited flight equipment and heavy utilization of the existing equipment. The carrier has pledged to continue its efforts to offer the first flight at an earlier time.

Selection Decision

In selecting carriers to provide essential air service, the Department is specifically required under 49 U.S.C. 41733 to consider: (A) the demonstrated reliability of the applicant in providing scheduled air service; (B) the contractual and marketing arrangements the applicant has made with a larger carrier to ensure service beyond the hub airport; (C) the interline arrangements that the applicant has made with a larger carrier to enable connecting passengers and cargo at the hub airport to be transported by the larger carrier through a single reservation, ticket, and baggage check-in; and (D) the preferences of the actual and potential users of air transportation at the eligible place, giving substantial weight to the views of the elected officials representing the users. In addition to these statutory selection criteria, the Department also considers the subsidy cost of the proposal options and the overall quality of the proposed service.

Mesa has been conducting scheduled passenger air service continuously since its beginnings as Mesa Air Shuttle in August 1982. It has interline ticketing and baggage agreements with at least 14 other carriers. As we have noted above, the City of Gallup

generally supports the selection of Mesa as its essential air service carrier. In addition, we find the subsidy amount to be reasonable for the service to be provided. For these reasons we have decided to select Mesa to provide essential air service at Gallup for the period of February 3, 1999, through October 31, 2001.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service before we may subsidize it for essential air service. We last found Mesa Air Group fit to provide scheduled passenger service as a certificated air carrier by Order 2000-4-2, April 3, 2000, when we selected it to provide service at Massena, Ogdensburg, and Watertown, New York. The Department has routinely monitored the carrier's continuing fitness, and based on our review of its most recent submissions, we find that Mesa continues to have available adequate financial and managerial resources to establish and maintain quality service at Gallup, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason that we should not find that Mesa remains fit.

This order is issued under authority delegated in 49 CFR 1.56a(f).

Accordingly,

1. The Department selects Mesa Air Group, d/b/a America West Express, also d/b/a Mesa Airlines, to provide essential air service at Gallup, New Mexico, as described in Appendix B to this order, for the period of February 3, 1999, through October 31, 2001;
2. The Department sets a final rate of compensation for Mesa Air Group, d/b/a America West Express, also d/b/a Mesa Airlines, for the provision of essential air service at Gallup, New Mexico, for the period set forth in ordering paragraph (1), above, to be payable as follows: For each calendar month in which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling rates set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible departures performed during the month by \$375.59;¹
3. The Department finds that Mesa Air Group, d/b/a America West Express, also d/b/a Mesa Airlines, continues to be fit, willing, and able to operate as an air carrier and capable of providing reliable essential air service at Gallup, New Mexico;
4. The Department directs Mesa Air Group to retain all books, records, and other source and summary documentation to support subsidy claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit

¹ See Appendix B for calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

and examination thereof by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

5. Docket OST-1998-4706 shall remain open until further order of the Department; and

6. We will serve a copy of this order on the Mayor and Airport Manager of Gallup, New Mexico; the Governor of New Mexico; the Director of the New Mexico State Highway & Transportation Department; and Mesa Air Group.

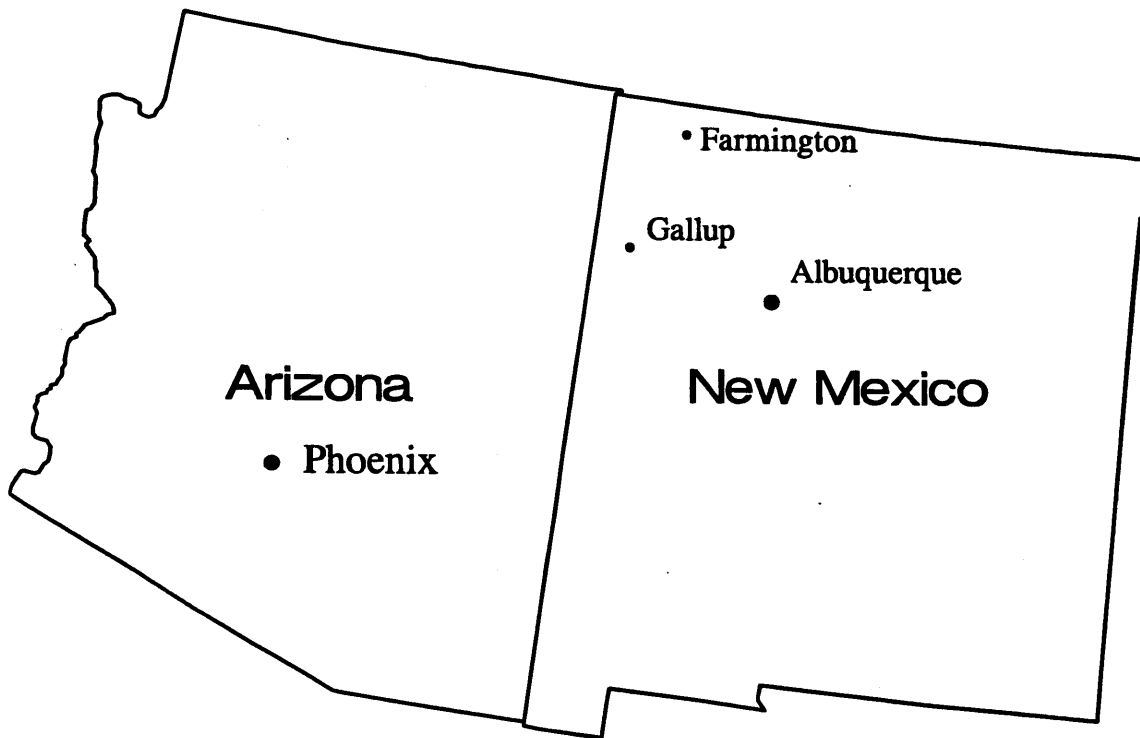
By:

A. BRADLEY MIMS

Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*



Mesa Airlines, Inc.
Basic Essential Air Service To Be Provided at Gallup, New Mexico

Effective period: February 3, 1999, through October 31, 2001.

Service: 18 nonstop round trips per week to either Phoenix or Albuquerque.

Limitations on service to points upline from Gallup: No upline limitations.

Aircraft type: Beech 1900 (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$691,080

Subsidy rate for each arrival from or departure to Phoenix or Albuquerque: \$375.59 ¹

Weekly compensation ceiling: ² \$13,521.24 ³

¹ Annual compensation of \$691,080, divided by the number of departures estimated to be performed annually (1,840 departures, calculated by multiplying six departures per service day by 313 annual service days--counting each weekend as one service day--and multiplying further by 98 percent completion).

² Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

³ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Airlines, Inc.
Basic Essential Air Service To Be Provided at Gallup, New Mexico

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirement at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Mesa Air Group
Provision of Basic Essential Air Service at Gallup, New Mexico
Calculation of Compensation Requirement

Total estimated annual block hours	1,227
Total estimated annual revenue passenger-miles	477,012
Total estimated annual departures	1,840
Total estimated annual available seat-miles	4,439,920

Operating revenue:

	<u>Passengers</u>	<u>Average fare</u>	<u>Revenue</u>	<u>Route mileage</u>
Passenger revenue:				
GUP-ABQ	3,756	\$98.00	\$368,088	127
Other revenue	\$368,088	0.01	<u>3,681</u>	
Total operating revenue			\$371,769	

Operating expense:

	<u>Unit rate</u>	<u>Units</u>	<u>Expense</u>
Direct operating expense:			
Flying operations	\$103.75	1,227	\$127,301
Fuel and oil	\$91.19	1,227	111,890
Other flight operations	\$17.48	1,227	21,448
Maintenance	\$212.895	1,227	261,222
Aircraft ownership	\$135.46	1,227	<u>166,209</u>
Total direct operating expense	\$560.77		\$688,071

Indirect operating expense:

Traffic-related	\$0.067	477,012	\$31,960
Local marketing			5,000
Departure-related	\$117.00	1,840	215,280
ASM-related	\$0.016	4,439,920	<u>71,927</u>
Total indirect operating expense			<u>\$324,167</u>

Total operating expense \$1,012,237

Operating loss \$640,469

Profit element 0.05 \$1,012,237 \$50,612

Compensation requirement \$691,080